STATEMENT OF THE HONORABLE BOB BERGLAND
SECRETARY OF AGRICULTURE
BEFORE THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
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Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to review the state of American agriculture.

In the last year I have traveled to 26 states--some three or four times--and met with over 55,000 people, mostly farmers, in both small and large groups. In each of my 62 meetings I have tried to accomplish two things: first, to explain what has been done legislatively and administratively to reverse the critical cost-price squeeze facing farmers, and second, to listen to their concerns and suggestions.

Some of these meetings, as I'm sure you're aware Mr. Chairman have been heated, because some farmers do in fact have their backs against the wall. Some are in jeopardy of losing their farms.

Just last Friday I sat down at a table with thirty striking farmers and listened to very specific concerns and suggestions about what they think the Federal Government should be doing to help them.

These farmers were most concerned about farm prices and ways to get those prices substantially higher. They were concerned about beef imports and the effect these have on our livestock industry. They question how accurately we predicting foreign harvests and our reporting of grain export sales. They expressed genuine concern about the Federal Government's record of providing disaster assistance to farmers.

With these brief opening comments I want to devote the balance of my statement to a review of the past year in food and agriculture.

Summary of 1977

Farm Income

According to preliminary data, total receipts from marketings at $95 billion, were up slightly from 1976 and were record high. Government payments were substantially higher. But higher production expenses more than offset increases in receipts, and realized net income declined.

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Prices received by farmers declined, and prices paid increased. Crop prices dropped 16 percent from the second to the third quarter, but then started to inch upward. Livestock and product prices remained quite stable in 1977, although there were significant changes within the sector.

Prices paid by farmers continued to rise even though the price of feed declined. Prices for most other items used in the production process increased 7 - 10 percent. Items purchased for family living rose about 5 percent.

Farm Assets

The value of farm assets rose to $731 billion, a gain of $60 billion for the year. About $50 billion of the increase was due to land price inflation. Farm debt rose to $120 billion, up nearly $18 billion. Even so, net equity in land increased to $482 billion, up from $441 billion a year ago and $187 billion eight years ago.

The increase in non-real estate debt, including CCC loans, was close to $10 billion, about the same as the increase in the non-real estate asset value. In consequence, non-real estate debt rose to 30 percent of non-real estate assets, up from 26.5 percent in 1976.

Cash Flow

The serious cash flow problem facing grain producers has been eased, but by no means overcome, partially through record loan activity and the distribution of wheat target price payments, starting in December and continuing this month. To date, over 1.5 million checks have been written totaling nearly $900 million. This is an estimated 90 percent of the checks to be written and approximately 75 percent of the total value of the $1.2 billion.

Two weeks ago the Administration announced increases in 1977-crop grain sorghum and barley target prices. Barley growers will receive just over $200 million. Grain sorghum producers will receive payments totaling between $300 - $325 million. These payments will be made in the spring.

These payments will help relieve serious income and debt repayment problems. A secondary benefit will be that when payments are deposited with local banks, there will be a shift in banks' loan/deposit ratios, resulting in a greater lending flexibility in rural areas.

FmHA Foreclosure Policy

The Farmers Home Administration (FmHA) has provided loan support in areas where drought and other weather related problems cut back output in 1977. In the first quarter of fiscal year 1978 emergency loans amounted to $750 million, compared to only $70 million in the first quarter of the previous fiscal year. SBA emergency loans in the first quarter of this fiscal year totaled over $500 million.

Last year, FmHA emergency loans to farmers amounted to almost $1.2 billion, with other funds coming from the Small Business Administration. I might mention that since January 1, FmHA has approved over a quarter of a billion dollars in emergency loans, so that the total emergency loan program for the first four months of this fiscal year will be equal to the entire amount lent last year.

In addition to this disaster assistance, I've instructed the Farmers Home Administration to take all steps possible to help farmers who have been caught in a squeeze of inadequate farm income and increased production costs. I've ordered FmHA to extend payment periods, to refinance loans, to make debt consolidation loans, or to defer principal and interest payments for up to five years to help borrowers who have fallen behind on their loans. Our policy is that under no circumstances will a farmer be foreclosed on or denied new credit for which he is eligible, as long as there is a reasonable chance he can remain on the farm.

In general, farm lenders, including the Federal Land Banks, the Production Credit Associations, commercial banks and insurance companies have responded to the needs of farm borrowers by assisting them in realigning their debt load and payments with the new lower level of income. The adjustments have included loan renewals, extensions, and the refinancing of short-term debt into longer term loans (secured by real estate). All of these actions will lower annual payments made by farmers.

As a result of these adjustments, fewer farm borrowers are facing the threat of foreclosure. However, many are finding it necessary to make sharp curtailments in new investments.

Food Prices

The value of farm produced food continues to decline as a percent of retail food prices. The farm value of U.S.-produced food has remained quite stable since 1974, while the cost of services associated with bringing this food to the consumer continues to rise each year. Since 1974, virtually all food cost increases can be attributed to higher prices for imported food and rising marketing costs. This past year, about two-thirds of the 6.3 percent increase in retail food prices was because of the higher prices for coffee and other imported foods and fish. The remaining one-third resulted from higher marketing charges for assembling, processing and distributing foods after they left the farm.

This past year consumers paid nearly $180 billion for U.S. farm-produced foods and farmers received about $56 billion.

Current Situation

World Production

The record 1976 world grain crop and a 1977 crop down only 2 percent has resulted in an increase in world carryover stocks of grain. World grain output in 1977 -- including rice -- totaled slightly more than 1.42 billion metric tons, down about 30 million tons from 1976.

This world grain estimate is fairly firm, but the estimates for the southern hemisphere countries are still uncertain, especially for South Africa, Australia, and Argentina where there has been drought damage.

The world's wheat crop is now being estimated at about 379 million metric tons, 34 million tons (8 percent) less than the record production in 1976/77. The wheat crop was smaller in most countries, due either to reduced plantings or unfavorable weather. Wheat stocks in the U.S. are expected to remain steady or increase slightly while the rest of the world draws stocks down.

World coarse grain production for 1977/78 is now estimated at 683 million tons, down 10 million (1.5 percent) from the record harvest of 1976/77. The decline of 19 million tons in foreign production was partially offset by the 9 million ton increase in the U. S., where production established a new high.

Even though world coarse grain production is slightly smaller, total supplies are larger, as a result of stocks being built up last year. Another sizeable increase in U. S. carryover stocks is expected, but rest-of-world stocks will decline.

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World rice production appears to be record high and rice stocks are expected to build. U. S. production of 99 million cwt. is down 14 percent this year because of reduced acreage and lower yields, and rice prices are relatively strong.

World cotton production for 1977/78 is estimated at a record 65.5 million bales, a 12 percent increase over last year and 2 percent higher than the 1974/75 record of 64.3 million. Consumption is expanding slowly, reflecting the lagging rate of economic growth in many industrialized countries and strong competition from manmade fibers.

As in other commodities, the U. S. has had the major production increase and most of the buildup in world stocks. U. S. production totaled 14.5 million bales, a 37 percent increase over 1976, increasing our total supply to 17.5 million bales, the largest since 1968/69.

World oilseed output is expected to be record-large in 1977/78, up about 10 percent from last year. The main reason for this increase is the record U. S. production of 46.7 million tons of soybeans. There were also gains in Brazil and Argentina and an increase in Canada's rapeseed crop.

With this world supply situation, we can look at the U. S. picture more closely.

Crop Production

Early last year there was major concern over the possibility of low crop production in 1977. Drought continued on the West Coast and hit the Southeast and some areas in the Midwest; the winter was severe, including a bad, killing frost in Florida; subsoil moisture conditions were poor over virtually the whole country during the spring and summer; and the late fall harvest period was fairly wet in the Midwest. Despite all these weather problems, crop output was record large in 1977, running 7 percent above 1976. Better yields accounted for most of the increase. The sharpest gains in production were in cotton (37%) and oil crops (30%). Feed grain production rose moderately, but declines were recorded for food grains, sugar crops, and tobacco.

Livestock production

Livestock production in the United States was at an all-time high in 1977. The reduction in the beef cattle inventory continued through the third year and returns to cow calf operators were low. This, plus generally poor range and pasture conditions last year, offered little encouragement for cattlemen to take steps to halt the current liquidation of their herds. Commercial production of meat, including poultry meat, exceeded 50 billion pounds, about the same as in 1976, but record high. Beef and veal production was down 3 percent, but pork and broiler production was up 4.5 and 2.7 percent, respectively. Broiler production was 18 percent above the level of 1972, while beef production was up 12 percent. In contrast, pork production was 8 percent lower.

Exports and Imports

Exports of agricultural products were record high in 1976/77, but so were imports. The sharpest gains in value of exports were in soybeans, cotton, tobacco, and annual products. The value of coffee imports escalated rapidly from $2.4 billion to $4.4 billion and imports of other products increased 11 percent. However, the balance of trade surplus exceeded $10 billion for the fourth straight year.

Stocks, January 1

Stocks of grains, oilseeds, and cotton are higher this January and with low farm prices, CCC loan activity has been heavy. This has tightened "free" stocks and contributed to recent price strength, particularly for grains. As of January 1, total grain stocks were up about a tenth from a year ago, cotton stocks up about a half, and soybean stocks up a fifth. Commodity stocks under loan to CCC including grain reserves, rose from less than $1 billion on January 1, 1977 to an estimated $4 1/2 billion this January. CCC ownership of crop commodities remains comparatively small.

Prospects for 1978

Livestock and Product Prospects

Large supplies and low feed prices in 1976 helped encourage farmers to expand output of fed cattle, pork, broilers and milk. The shift to more cattle on feed is continuing and cattlemen may begin to halt herd liquidation in 1978. This means less lean beef in 1978, unless weather is bad this spring and summer. Meat imports subject to the meat import law (largely lower grade processing beef) will likely be equal to about 7 percent of U.S. production.

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Pork producers have been increasing output for more than 2 years and the expansion is likely to continue throughout 1978. Hog prices eased some last year, but so did feed costs -- prompting further expansion. This year's pork output may be up about a tenth. Broiler production will also increase. More eggs and chicks in the supply line can provide about a 5 to 8 percent increase in the first half and a similar increase is in prospect later in the year.

The 2 to 3 percent cut in beef production this year will be more than offset by sharp gains in pork and broilers. Commercial meat productinn in 1978 may top 51 billion pounds, or 2 percent more than a year earlier, but the final outcome will be affected by weather conditions as they affect both crops and livestock. Record meat production will keep a lid on meat prices.

Egg production will be higher, and lower first half egg prices may put producers in a severe cost-price squeeze. Milk production will increase 1 - 2 percent. Producer prices will rest upon the support price, and government purchases will again be substantial.

Crop Prospects

The Prospective Plantings Report issued last Friday indicated some significant shifts among the major crops--corn down about 2 percent, sorghum up 3 percent, soybeans up 8 percent, upland cotton down 7 percent, durum up 31 percent, other spring wheat down 12 percent, and rice up about 10 percent.

The events that will likely influence what farmers do decide to plant will include:

- the stocks report to be issued tomorrow, which will give a better picture domestic use.
- indicators of foreign demand, notably from the Soviet Union and the People's Republic of China. The USSR will import much more grain this year. At the December consultations, the Soviet's said that they do not expect to purchase more than 15 million tons of wheat and corn. Shipments to the USSR will have to accelerate to reach 15 million tons.

The People's Republic of China imported about 7 million tons of wheat during 1977. Over 4 million tons of grain are scheduled for import in the first 6 months of 1978. Less than 1 million tons have been contracted for July-December 1978 delivery. This suggests China will be in the market for significant additional quantities, looking first to Canada and Australia. Should Chinese 1978 crop prospects fall below expectations or supply problems develop in Canada or Australia, they may come to the U.S. for part of their wheat requirements.

-the quantity of wheat and feed grains that moves into the loan and reserves program, and the impact on market prices.

As of January 18 there were 657 million bushels of wheat and 1.139 billion bushels of feed grain (corn equivalent) under the loan program. About 112 million bushels of wheat was in the reserve program, with 75.6 million in the farmer-owned reserve.

-participation in the set-aside programs.

-the weather.

Export Promotion

I believe that the plans this Administration has made will indeed expand our exports, both in the short and long term. We know that stable growth in exports is a long range project that can't be accomplished overnight.

But there are actions that can be taken and have been:

-The level of funding for Fiscal 1978 CCC export credits has been more than doubled -- from $750 million to $1.7 billion -- and soybeans and soybean meal have been added to the commodities eligible for export financing.

-An intermediate credit program has been devised to bridge the gap between the 3 year CCC credit limit and long-term P. L. 480 credit. A non-commercial risk assurance program for exporters has been developed.

-The Fiscal 1978 budget for USDA cooperator market development programs was increased by 15 percent.

-Cooperator organizations have been assisted by USDA in opening a wheat promotion office in Casablanca, Morocco, and a feed grains office in Singapore will open soon. This will mean that there will be 20 U.S. grain cooperator sales promotion offices throughout the world.

-Attache coverage in the Arab countries is being expanded, and an attache post in East Berlin is scheduled to be open in February. These actions will strengthen our representation in the Middle East and Eastern Europe, where great potential growth is possible for U.S. agricultural products.

-The U.S. Meat Export Federation, a new cooperator organization which began export promotion work with the Department about a year ago is greatly expanding its activites. The Federation has just opened an office in Tokyo and will open a European office, most likely in London, within the next two or three months.

-The trade talks with the Japanese earlier this month resulted in substantial increases in Japanese import quotas on quality beef cuts, on fresh oranges, and on citrus juice.

These are some of the actions that we expect will be most useful for the near-term. For the long-range, there is activity in many international forums, including the Multilateral Trade Negotiations in Geneva, and the International Wheat Council.

International Trade Negotiations

Multilateral Trade Negotiations

Concerning the Multilateral Trade Negotiations, the United States was involved in accelerating the negotiations in Geneva. We remain modestly optimistic that there will be meaningful results for agricultural trade. It is our hope thatthe way will be cleared for participating countries to negotiate trade concessions and to improve GATT rules under which trade could move more freely in response to market conditions. Of course, one of the U. S. objectives is to maintain existing trade accessibility for agricultural products, with top priority to continued duty-free soybean access to the European Community.

International Wheat Agreement

As you know, the United States last fall put before the International Wheat Council a proposal for a new International Wheat Agreement. Two weeks ago the IWC called for a conference starting February 13 in Geneva to begin negotiating a new agreement.

The United States is hopeful that this agreement will contribute to world food security, will moderate extreme price fluctuations, will promote the expansion of world wheat trade, and will ensure adequate food aid to developing countries. We are looking for an agreement that will ease the price shocks experienced by both producers and consumers, while permitting the market to stimulate and guide growth in trade.

Our proposal is to have cooperative actions by wheat importers and exporters to help maintain -- but not fix -- prices within highs and lows of a range. A central part of this plan would be an internationally-coordinated system of reserve stocks held by participating countries. When reserve stock actions are not enough to prevent extreme prices, participating countries would cooperate in other ways to affect supply and demand and moderate price swings.

I want to emphasize to Members of this Committee that we will not accept an agreement that sets rigid price limits or that limits the ability of U.S. producers to compete in the world market.

The International Wheat Agreement also includes the Food Aid Convention. The U.S. has proposed that the new Convention would ensure food assistance of at least 10 million tons a year to poorer countries. We have emphasized that responsibility for food aid must be widely shared among countries which have the means to provide aid.

International Sugar Agreement

I would also like to note the new International Sugar Agreement, which went into provisional effect on January 1. This Agreement is an attempt to give both producers and consumers a measure of protection against price gyrations that have hurt everyone at one time or another. It establishes a world price range of 11 to 21 cents per pound compared with market prices in recent months of 7-9 cents per pound. We believe the Agreement when it becomes fully effective will contribute to stability in a very troubled industry.

These are some of the actions that we are now taking to help strengthen farm income.

But producers also have several opportunities to increase prices, and I want to focus on those briefly:

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-Farmers can make full use of the loan programs and take grain out of the market at least temporarily. The impact of this action has been seen since summmer.

-Farmers can place excess grain into the farmer-owned reserve. This will effectively insulate substantial stocks from the marketplace until prices rise to at least $2.50 on corn, and $3.15 on wheat.

-Farmers can use the set-aside program, which will result in fewer acres being planted and less grain harvested.

We strongly believe that the programs made available in the Food and Agriculture Act of 1977 are workable tools that do give farmers the opportunity to influence market prices. But if farmers fail to use the loan program, fail to place excess production from 1976 and 1977 crops in reserve, and fail to participate in the set-aside programs, farm prices will likely decline from present levels. Then, the only hope for price stability or improvement will be bad weather affecting production this summer. Past experience tells us how unreliable the weather is.

Summary

While the prospects and potentials for food and agriculture in 1978 suggest some improvement, it is only a small beginning. The problems faced by agriculture today did not develop in one year nor are they likely to be resolved in one year.

The Food and Agriculture Act of 1977, coupled with an aggressive approach to agricultural market development, is the foundation of flexible food and agricultural policy which gives farmers the opportunity to meet the challenge of an uncertain future without rigid controls.

Changes in agricultural production and economic growth will continue to force reajustments in agriculture. But the current legislation promises to reduce the severity of those adjustments and protect producers and consumers, at home and aboard, from natural and economic disaster.

Thank you.